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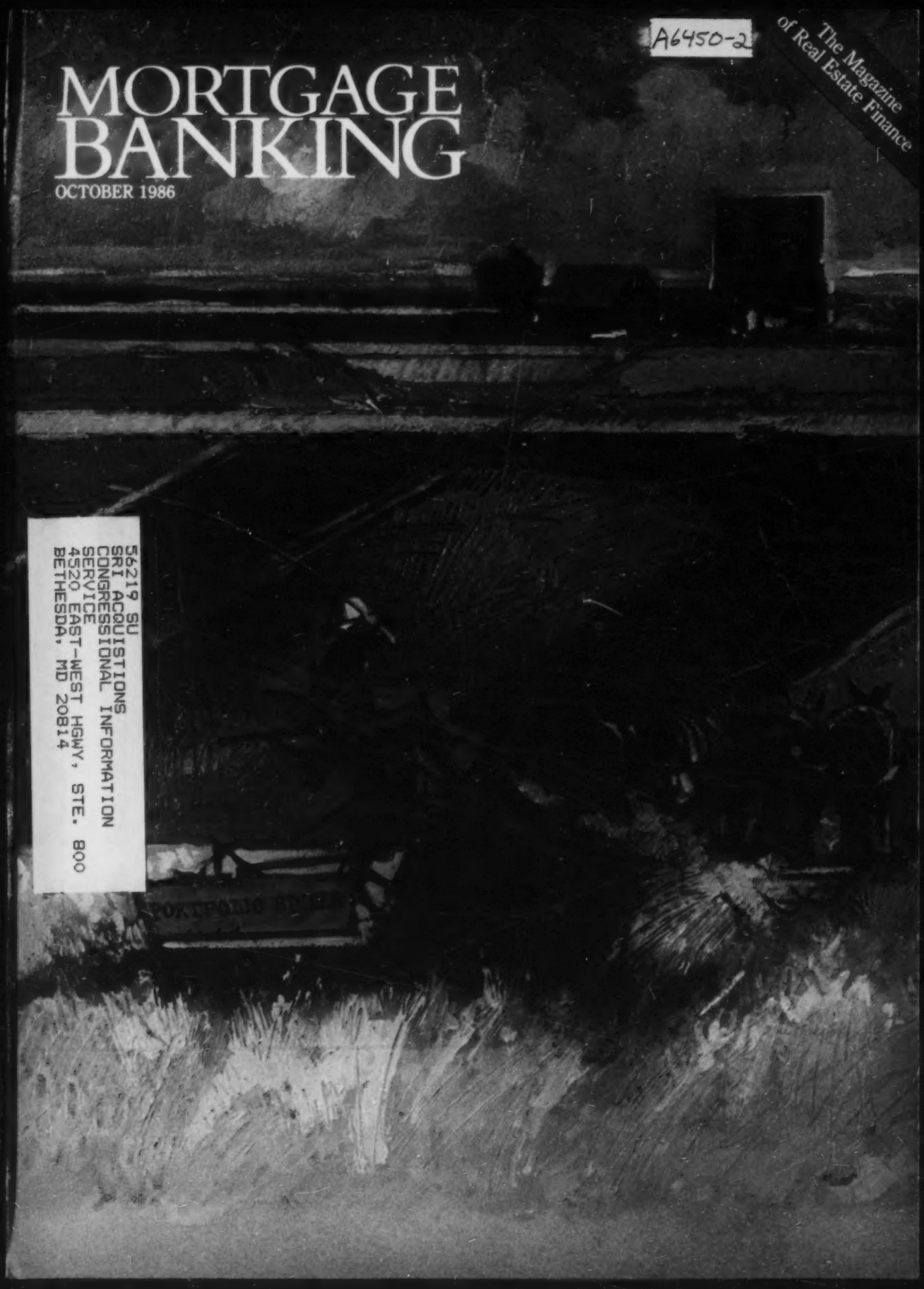
MORTGAGE BANKING

OCTOBER 1986

The Magazine of Real Estate Finance



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MORTGAGE BANKING

VOLUME 47 NO. 1
OCTOBER 1986

ARTICLES

PAGE 10
WISING UP TO THE UNDERWRITERS' DILEMMA: CONCEPT OR REALITY
Jack Gaffney
This article is an examination of the residential underwriter based on a survey developed by ICM Consultants, which looks at organization, productivity and staffing.

PAGE 24
SATISFYING THE WAREHOUSE LINE APPETITE
Frank S. Hattemer
A hypothetical visit by a warehouse lender to a mortgage company is explored to reveal what criteria are used to determine which mortgage companies are "bankable" or eligible for financing.

PAGE 39
MORTGAGE INSURANCE: CLEANING UP DELINQUENCIES
Steve Doehler
The private mortgage insurance industry makes homeownership affordable by providing protection for credit risk on residential mortgages. Analyzing the 1985 claims process indicates that many delinquencies could have been avoided if more lenders provided financial guidance to borrowers with problems.

PAGE 46
SERVICE WHERE CUSTOMER IS KING
David J. Gallitano
Customer service is crucial to success. Now is the time to make a total commitment to quality customer service to ensure a leading position in today's competitive marketplace.

PAGE 59
BUSINESS BASICS—QUALITY CONTROL: WEEDING OUT THE PROBLEMS
Joseph H. Estes
The loan production and quality control departments need to work together to weed out problem loans. Some basic guidelines are provided for the loan originator in this article.

PAGE 68
INCOME PROPERTY MORTGAGES: TURNING THE PIECES INTO SECURITIES
Eric Stevenson
Income property mortgages are rapidly being turned into securities with some of them forming the collateral for mortgage pools but this market does not resemble the market for residential MBSs. The mortgage banker needs to understand these developments. This article explains some of these developments and suggests a role for mortgage banking firms.

PAGE 84
INSURANCE: NEW PRODUCT DIMENSION FOR MORTGAGE BANKERS
Russ Banham
Many experts feel that mortgage banking companies have the necessities to facilitate the sale of insurance products. Lomas and Nettleton is effectively marketing diverse products and Manufacturers Hanover is exploring such opportunities.

PAGE 98
RISK MANAGEMENT THROUGH DIVERSIFICATION: PUTTING YOUR EGGS IN DIFFERENT BASKETS
John B. Corgel and Gerald D. Gay
Does geographic diversification offer the potential for reducing risks in mortgage portfolios? This article investigates which strategy to follow. One possible approach is to proportionally allocate funds across several of the fastest growing areas.

PAGE 111
PARENTING A MORTGAGE COMPANY
Bill Sinclair
Two thrifts relate how they

joined forces and became equity partners in forming their own mortgage banking subsidiary.

PAGE 123
UNDERSTANDING WRAPAROUND LOANS: A CLOSER EXAMINATION
Earl L. Gross
This author provides an explanation and examination of wraparound loans. The benefits and problems inherent in originations of this type of loan are reviewed.

PAGE 131
CARING FOR YOUR APPRAISER: ALL THE ESSENTIALS
Henry C. Entreken, Jr., CMB
The function of the appraisal is to assist the loan officer in making an investment decision concerning a specific property. It is not to support the decision already made. Some suggestions on how to avoid some of the appraisal problems that have been experienced by lenders are provided.

PAGE 137
CMB: IN PURSUIT OF DISTINCTION
Peter VanGraafeiland, CMB and Alex Kinchen
The Certified Mortgage Banker designation is explained for what it is and what it is not. All the candidacy requirements are outlined.

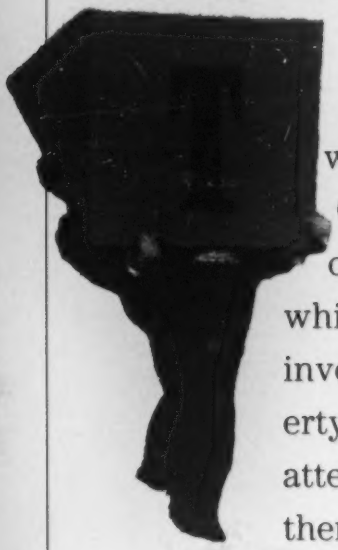
PAGE 143
AUTOMATION: IMPROVED PRODUCT AND SERVICE QUALITY
Jeff Lebowitz
Efficiency produces profitability and automation produces efficiency. A sophisticated software system can easily bring about improvements in efficiency at each end of the transaction.

PAGE 149
THE LAST WORD (RESPA AND REFERRAL FEES)
Kenneth G. Lore and Barry P. Rosenthal
Fees paid by mortgage lenders to mortgage originators purely for the referral of loan applicants may be permissible, according to a recent court decision. This case is discussed in this article.

DEPARTMENTS

ABOUT THE ISSUE	5
LETTERS	8
BUSINESS BASICS	59
PEOPLE	154
BOOKS	168
SECONDARY MORTGAGE MARKETS	175
MORTGAGE MARKET TRENDS	177
AD INDEX	190

Eric Stevenson



Two and a half years ago, the Canadian developer, Olympia & York, financed three existing New York office buildings by issuing $970 million in securities, which Salomon Brothers then sold to approximately 45 investors. It was not the first securitized income property mortgage but its size and novelty attracted national attention. In the time period since then, an increasing volume of income property mortgages has been turned into securities. It is now possible to categorize different types of income property (often called "commercial") mortgage-backed securities. (Charts 1 and 2 list many of the major transactions.) The categories are significantly different from one another, but each, in its own way, is important for mortgage bankers and lenders to understand. The types of securities covered in Charts 1 and 2 have been developed during the past two or three years, but securitization of income property mortgages in other forms has been in existence for at least 15 years. One example is the project loans insured by the Federal Housing Administration (FHA) for multifamily buildings and for hospitals and nursing homes. The Government National Mortgage Association (Ginnie Mae) guarantees the timely payment of principal and interest for the securi-

TURNING THE PIECES INTO SECURITIES

Income Property Mortgages

ILLUSTRATION BY STEVE MCCRACKEN

ties backed by the mortgage pool, which consists of one project loan per pool and the securities are sold in the same manner as Ginnie Mae-backed single-family mortgage securities are sold.

A second familiar example of securitization is the use of tax-exempt bonds to finance commercial and residential properties. The bonds are often backed by a lease from a credit-rated tenant, by a letter of credit from a credit-rated bank or by credit support from a surety.

The third use of securities during the last five years is the situation when a financial institution sells its building (usually its headquarters) and leases it back over a long-term lease. The sale is financed by the issuance of securities backed by a mortgage and the securities are as strong as the credit of the tenant under the long-term lease.

Sale-leaseback financing may consist of one interest bearing note or several classes of notes. For example, with a building costing approximately $180 million in 1983 that was leased by a major life insurance company, the class of securities with the shortest term, five years, received its principal repayments before any part of the next shortest term securities were repaid. These, in turn, were retired before principal payments were made on the third class of 15-year notes.

A fourth familiar method of securitization is used by the real estate investment trusts (REITs) that invest in mortgages. The REITs must distribute almost all of the income received from the mortgages to their shareholders.

Finally, syndications, which are shares in limited partnerships, have been selling shares both in equity ownership of real estate and in mortgage loans. Shares may be sold privately or in the public market.

New categories of securitization

There are two distinctly different types of securitization that are relatively new to the income property field. The first is the act of financing, through the use of securities, one or more income properties owned by one owner. This category may be called "securitized originations." (Some of the major deals are listed in Chart 1.)

The second category consists of turning a portfolio of existing mortgages owned by one lending institution into securities for the purpose of sale or to use as collateral for borrowing. This category, covered in Chart 2, can be called "securitization of existing portfolios."

Related to the "securitization of existing portfolios" are the programs of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) to purchase or swap multifamily housing mortgages on a continuing basis. The mortgages are then pooled and participation certificates, which are mortgage-backed securities, are sold.

Securitized originations

The chief characteristic of a financing or refinancing that is handled through the securities market is its size, usually more than $100 million. The largest "origination" is the $1.3 billion financing of the Rockefeller Center.

The transactions have been diverse. Some securities have been rated AA by Standard & Poor's Corporation; others have paid higher interest rates because of the perceived risk that the mortgage is backed either by raw land or by hotels and gambling casinos. Several securities issues have been used for financing of multiple properties, often in connection with an acquisition. In 1983, Drexel Burnham Lambert helped Melvin Simon, the shopping center developer, refinance nine shopping malls and provide construction financing for a tenth. When another shopping center developer, Alfred Taubman, acquired Woodward and Lothrop, the department store chain, the real estate was financed with securities underwritten by Salomon Brothers. Merrill Lynch Capital Markets assisted in the acquisition of Motel 6, a chain of budget motels, through mortgages converted to securities and Salomon Brothers used first mortgage securities for financing the sale of Holiday Inns in Virginia.

Major developers use the securities market because of their enormous need for funds. Olympia & York, for example, raised about $4 billion in 1985, using a variety of sources, including the mortgage market, the commercial paper market and the securities market for income property mortgages. Lincoln Properties borrowed nearly $2 billion in 1985, of which its securities issue of $148 million to finance two office buildings (one in Atlanta and one in Pittsburgh) was only a small part.

Standard & Poor's credit ratings

Standard & Poor's (S & P) issued guidelines in November 1984 for the procedures it would use to attach a credit rating to a pool of mortgages or to a mortgage on a particular piece of property. Mortgage bankers thought at the time that perhaps the credit ratings would be applied to pools of mortgages, which, with a rating, could be compared to rated corporate and municipal bonds. On the contrary, the five ratings prior to July 1986 are all

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"There are two distinctly different types of securitization that are relatively new to the income property field."

on large New York office buildings.

In early August 1986, S & P rated its first multifamily issue. The AA minus rating followed guidelines issued in December 1985 for multifamily apartments.

To rate an income property mortgage, S & P uses a "worst case scenario." It estimates what might happen to rents and occupancy ratios if there were a "worst case," a severe recession in real estate. It calculates, under the worst case, what sums would be necessary to pay the debt service, maintain the loan-to-value ratio at a comfortable level and what kind of reserves would be necessary to provide liquidity.

The first mortgage with a credit rating was the zero coupon bond that financed part of the American Express building now going up in lower Manhattan. Notes with recourse to American Express had financed part of the $700 million building. The zero coupon bond was sold to raise $82 million, but when it was to be redeemed in approximately 15 years, the issuer would have to pay $450 million to the bondholders. It would apparently be sufficiently protected because by the time the zero coupon bond fell due, the recourse notes would have been paid and the zero bond would be a first lien on a building worth (in 1985) about $700 million.

For three other ratings of AA given by S & P on financing of New York office buildings, credit support from a third party was required. Olympia & York obtained limited guarantees from Aetna Casualty & Surety for

CHART 1 Securitized Originations (as of July 1, 1986)

The following list includes the majority of securitized originations. It includes both public sales and privately placed securities, but not participations nor does it include many securities on buildings leased by financial institutions.

Date	Issuer and type of property	Type of security	Amount
June 1983	MSA Shopping Malls, Inc. (10 shopping centers)	10.95% participating mortgage bonds with additional interest certificates	$110 million
March 1984	Olympia & York (3 New York office buildings)	Floating rate first mortgage notes	$970 million
April 1985	American Express (New York office building)	Guaranteed notes plus nonrecourse zero coupon bond	$868 million
April 1985	Motel Acquisition Company, Inc. (Motel 6, a motel chain)	Adjustable rate pass-through certificates	$186 million
May 1985	Prime Motor Inns (43 motor hotels)	First mortgage certificate	$173.5 million
July 1985	VMS Realty (2 Philadelphia office bldgs.)	Two series of interest notes plus zero bond	$120 million
August 1985	Woodward & Lothrop (Department stores)	Subordinated notes: First mortgage notes	- $130 million - $127 million
1985	Fluor World Headquarters (Company headquarters in Irvine, California)	First mortgage certificates	$204 million
September 1985	Rockefeller Center Properties, Inc. (office buildings in New York)	Convertible debentures, Common stock, zero coupon bond	$1.3 billion
December 1985	Olympia & York Maiden Lane Finance Corporation (office buildings in New York)	First mortgage notes	$200 million
December 1985	Fisher Brothers Financial Realty (New York office building)	First mortgage notes	$160 million
December 1985	Lincoln Property Associates Limited (Atlanta and Pittsburgh office buildings)	First mortgage bonds	$146 million
March 1986	Las Colinas Corporation (797 acres of land)	First mortgage notes	$150 million
April 1986	Bally's Grand, Inc. (Two casino hotels)	First mortgage notes	$320 million
May 1986	Olympia & York Water Street Finance Corporation (New York office building)	Secured notes and zero coupon bond	$548 million
June 1986	Real-Vest Corporation (Los Angeles office building)	Serial mortgage notes	$198 million
June 1986	VMS Realty (Holiday Inns and Crowne Plaza Hotels)	First mortgage notes	$279 million

Note: Where zero coupon bonds are used, the total amount of financing listed in the chart includes the eventual payoff of the zero coupon bonds. For example, American Express received approximately $82 million from the sale of zero coupon bonds, but when the bonds fall due 15 years after issuance, it will owe $450 million.

CHART 2 Securitization of Existing Portfolios

A. Euromarket Offerings

Date	Issuer	Type of security	Amount
December 1984	Prudential Realty Securities III	Fixed payment bonds (2 classes plus zero)	$1.3 billion
January 1985	New England Life Mortgage Corporation	Fixed payment bonds (2 classes plus zero)	$299 million
August 1985	CM International, Inc. (subsidiary of Connecticut Mutual Life Insurance)	Fixed payment bonds (2 classes plus zero)	$344 million
August 1985	Phoenix Mutual Funding Corporation	Fixed payment bonds (2 classes)	$158 million
January 1986	Mutual Benefit Overseas Inc.	Fixed payment bonds (3 classes plus zero)	$856 million

B. Pass-Through Certificates

April 1985	Lincoln Mutual Life Insurance Company	One pool	$ 94 million
May 1985	The Guardian Life Insurance Company of America	Four pools	$ 95 million
June 1985	The Travelers Insurance Company	One pool	$310 million
August 1985	The Massachusetts Mutual Life Insurance Company	Nine pools	$693 million
December 1985	Home Life Insurance Company	Five pools	$214 million
December 1985	The Equitable Life Assurance Society	Two pools	$156 million
July 1986	The Equitable Life Assurance Society	Three pools	$225 million

C. Commercial Mortgage Obligation

December 1984	Penn Mutual	Three classes plus zero	$244 million

D. Freddie Mac

1984	Two Swaps under Guarantor Program with Financial Corporation of America		$830 million (approx.)
1985-86	Three issues of multifamily mortgage participation certificates		$1.6 billion

E. Fannie Mae

September 1984	MBS Swap with Midwest Federal		$140 million
1985	2 MBS Swaps with Seamens Savings Bank		$250 million
April 1986	MBS Swaps with Empire Savings, FSA		$108 million

F. Major Participations

December 1985	Lincoln National Life Insurance	Sale of whole loans to First Boston, which sold participations	$140 million
June 1986	The Integon Corporation	Sale of loans to Drexel Burnham Lambert, which sold participations	$ 90 million

Note: Where there are zero coupon bonds, the payoff value of the bond is used in the "Amount" column.

"The chief characteristic of a financing or refinancing that is handled through the securities market is its size, usually more than $100 million."

office buildings on Maiden Lane and on Water Street in New York. The Fisher Brothers building was financed on the basis of a letter of credit from the Union Bank of Switzerland.

Moody's plans to issue its credit rating system this fall.

Salomon Brothers worked with American Express, Olympia & York and Fisher Brothers to obtain AA ratings for the securities on the New York office buildings. Drexel Burnham Lambert obtained a Baa rating from Moody's on securities issued by Las Colinas Corporation to finance land. Drexel Burnham Lambert also securitized $320 million of first mortgages on casino hotels in Las Vegas and in Reno.

Securitization of existing portfolios

For many years, financial institutions have sold income property loans to each other but in very small amounts compared with the number of mortgages originated. In recent years, tax considerations have become more important, particularly for mutual life insurance companies. The sale of a mortgage at a discount produces a tax loss that can be deducted against other tax gains.

Many of the savings and loan associations, in contrast to the major life insurance companies, do not have profits to be offset by tax losses so they are unwilling to sell mortgages at a loss.

continued

An exception to this was the sale of purchase-accounting mortgage portfolios which were sold in 1982-83 and where accounting regulations permitted thrifts to defer the losses.

In addition to selling whole loans, financial institutions also sell participations in income property mortgages. All of these sales are privately placed, so we have no records of how much has been sold. (Chart 2 lists only two of the largest participation sales.)

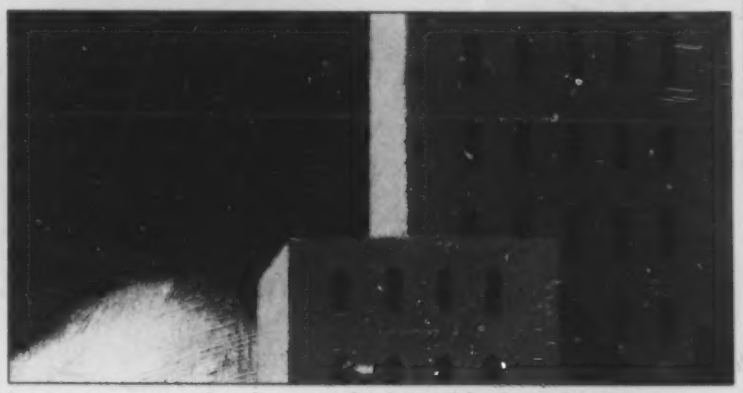
If it were sold to the public, a participation would become a security that would have to be registered with the Securities and Exchange Commission (SEC). Most participations are considered a means of financing between parties who are accustomed to lending on income property mortgages. The mortgage documents may be retained by the seller or may be delivered to a custodian. Sometimes the seller retains a portion of the participation and sometimes it sells 100 percent.

Securities, on the other hand, are usually sold to a wider group of investors, although the majority of sales of securitized income property mortgages are privately placed. A prospectus or offering memorandum is usually prepared. Two types of securities issues have been used predominately in the income property field, the fixed-payment bond and the pass-through security.

Fixed-payment bond

When a life insurance company issues a fixed-payment bond, called a mortgage-backed bond in the prospectus, the issuer (usually a specially created subsidiary of the life insurance company) is assuring the bond buyers that interest and principal will be paid as scheduled. The life insurance company attempts to make sure that the money it receives from the mortgages will cover the payments to the bondholders, but the bondholders need not worry about the mortgages because the obligation of the life insurance company to pay the bonds is there regardless of mortgage performance.

The fixed-payment bond is a method of borrowing funds. The motivation of the life insurance company may be to do a better job of balancing its assets with its liabilities, or to raise money for the returns available through new



investments, or to take advantage of an arbitrage situation.

Fixed-payment bonds were sold in the European market in the early part of 1985 because European investors were accepting lower interest rates than American investors. Furthermore, these issues, if sold outside the United States, do not have to be registered with the SEC. Registration is an additional cost and for mutual life insurance companies, it sometimes poses an accounting problem because the SEC requires that Generally Accepted Accounting Principles (GAAP) be used for domestic sales.

Last spring and summer, interest rates on the Euromarket were too high, comparable to other sources of money, to justify further sales of fixed-payment bonds overseas.

Prudential, New England Mutual, Connecticut Mutual, Phoenix Mutual and Mutual Benefit Life have sold commercial mortgage-backed bonds overseas. The bonds are sold in several classes. For instance, the first class might have a term of seven years, the second class 10 years and the third class might be a 15-year zero

Cronheim, the cornerstone of mortgage banking.

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coupon bond. A sinking fund is created with each offering to provide for the redemption of the bonds on a *pro rata* basis. As soon as the earliest bond class is paid off, then the next class of bonds is partially redeemed each year until that class is paid. Salomon Brothers and First Boston were the major underwriters for fixed-payment bonds.

Collateralized mortgage obligation

The first commercial mortgage obligation (CMO) for income property mortgages, issued in August 1984, was based on Fannie Mae certificates swapped by a Minneapolis savings and loan association, as discussed hereafter. The only other CMO was issued by Penn Mutual Life Insurance Company which pledged 85 income property mortgages, with a value of $244 million and received $204 million. The CMO was divided into four classes of securities with the final class being a 20-year (approximately) zero coupon bond.

Pass-through securities

Unlike a fixed-payment bond or a CMO, which are borrowings, pass-through securities are used to sell mortgages. The life insurance companies have used the sale of pass-throughs to make their portfolios more liquid, to raise money for new investments, and, often, to create tax losses. The loss, of course, is only available if the mortgages are sold at a discount. In 1986, interest rates on commercial mortgages have been falling to the levels that were available in the 1970s, so that sales in order to create tax losses are increasingly rare.

The buyers of income property mortgage securities are usually unwilling to reunderwrite the mortgage loans, so often they have required that the sellers provide a limited form of recourse. The life insurance companies have carefully structured the recourse provisions so that sales treatment will still be accorded.

The recourse provision on the sale of pass-through securities is now fairly standard. If the mortgagor fails to pay principal or interest as required by the mortgage loan, the life insurance company will advance the scheduled payments. If the borrower has failed to pay three or more consecutive payments within 24 months, the life insurance company will repurchase the loan at par plus one month's interest. During the 24 months, the life insurance company may continue to advance payments, or act to foreclose the loan or take a deed in lieu of foreclosure.

In order to get the benefits of the yield curve (shorter term notes pay lower interest rates, at least in recent years), the pass-through security is often divided into pools. Each pool's term is different. Massachusetts Mutual divided 328 mortgages it sold into nine pools of pass-through securities, but the usual number of pools is much lower.

Five of the pass-through securities issues sold were rated by Standard & Poor's, based on the recourse provisions and the credit of the life insurance companies, not on the mortgages by themselves.

Purchase and swap programs for multifamily mortgages

Freddie Mac purchases multifamily mortgages under two programs, Plan A and Plan B. The most popular program, Plan B, pays cash for mortgages that have a 10- to 15- year term but are usually amortized over a 30-year period. Prepayment is forbidden for a minimum of 54 months after delivery to Freddie Mac. Plan A multifamily mortgages are purchased for cash or for Freddie Mac certificates and have terms from 10 to 30 years. Plan B mortgages may be assumed, but Plan A mortgages may not.

Plan A mortgages are included in a limited amount (not to exceed 5 percent) in securities issues for single-family mortgages. Plan B mortgages are pooled and pass-through securities called participation certificates are sold publicly. Freddie Mac provides an unconditional guarantee that there will be timely payment of interest at the coupon rate and that all principal payments will be collected and paid without offset or deduction. Payments of interest and of principal are made monthly.

The first pool of Plan B multifamily mortgage securities consisted of 568 mortgages for a total of $701 million. This was sold in August 1985 and was followed a month later by a sale of securities for $100 million in the

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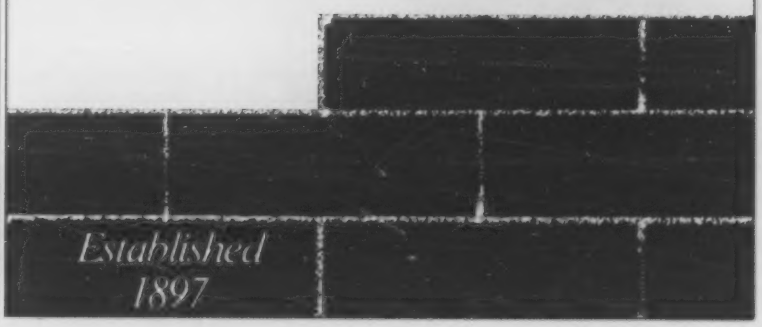


Euromarket. Last March, Freddie Mac sold $800 million of Plan B mortgage securities within the United States.

Freddie Mac continues to buy Plan B mortgages and it is expected that it will continue to securitize them and sell them either domestically or overseas.

Both Fannie Mae and Freddie Mac have programs for exchanging their guaranteed certificates for multifamily mortgages, but Freddie Mac is not actively pursuing its multifamily swap program, which it calls the Guarantor program. Fannie Mae's program is its mortgage-backed securities (MBS) program, but it has completed relatively few multifamily transactions.

In 1984 and early 1985, Freddie Mac exchanged its certificates for multifamily mortgages from the Financial Corporation of America (FCA), a California thrift institution. Freddie Mac has also swapped certificates for mortgages with four smaller institutions, the total Guarantor multifamily volume being about $850 million.

Fannie Mae, under its MBS program, exchanged its certificates for $140 million of multifamily mortgages from Midwest Federal in Minnesota. After this swap took place in August 1984, Midwest used the certificates as security for a collateralized mortgage obligation. Fannie Mae's MBS program was used with Seamen's Bank for Savings in New York and last April, with Empire of America, a New York savings bank.

Role of the mortgage banker in securitization

Mortgage bankers have sometimes expressed concern that the income property mortgage market will become securitized, and the players in that market that emerge will be major lenders and securities firms, not mortgage bankers. The trends to date indicate that concern to be virtually groundless.

In the business of securitized originations, the transactions to date have been extraordinarily large. There seem to be several reasons why it may be a long time before the size of the securitized origination drops to the level (the $10 million to $50 million loan) where mortgage bankers control the financing. First, the fees on a securitization are significant, not only the fees for underwriting and sale, but also legal and accounting fees, credit support fees and servicing fees. Second, if the loan is one that a life insurance company will consider, it may be possible to obtain quicker decisions from a life insurance company than from a securities firm. The life insurance companies, for the mortgages they want, sometimes will "circle" an interest rate within a week after receiving the loan submission and subject to the receipt of supporting information. The securities firms, on the other hand, require full information before they will quote a rate. It may take 60 days or more for a securities firm to give a firm quote.

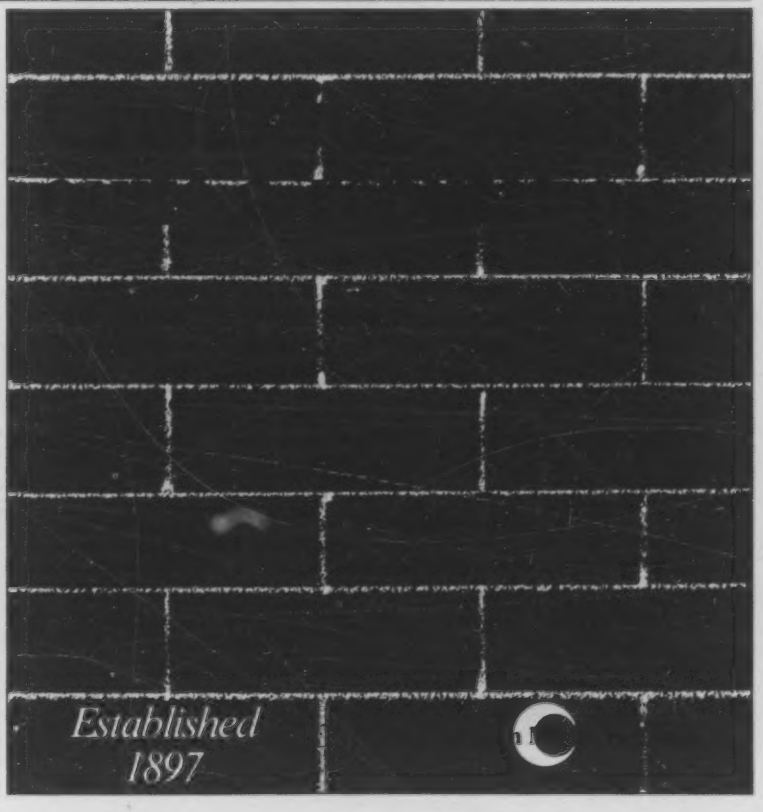
Some developers may be reluctant to have their deals securitized because once the security is issued, it may be more difficult to amend or change the scope of the deal. With a mortgagee familiar with the developer, more flexibility to changes may be possible.

On the other hand, the securities method may produce a considerably lower rate of financing for the borrower, particularly if the transaction has excellent credit behind it. The securities need not be limited to 75 percent of value.

In summary, for securitized originations, the mortgage banker will find that, for the immediate future, the securities firms will securitize only a few major-sized transactions.

In the field of securitization of existing portfolios, the mortgage banking firm may play a more active role, particularly for smaller life insurance companies and thrifts. It can help the institutions price their portfolios, find a buyer for individual mortgages and participations, and it can help the buyer with its due diligence. Moreover, in the multifamily field, the mortgage banker can originate mortgages for pooling and the sale of securities.

Last summer, securitization of income property mortgages was relatively quiet, due in major part to the fact that interest rates were low and the opportunities for new business were more remunerative than the purchase of existing mortgage portfolios. This will change because securitization is here to stay and the mortgage banking firms can play an important part. □



MORTGAGE MARKET TRENDS

In recent weeks, long-term interest rates have begun edging up, bringing an end to this summer's slide in rates that permitted fixed-rate mortgage levels to return to single digits. In particular, after dropping approximately 60 basis points from late July through late August to just under 7 percent, yields on 10-year Treasury securities have backed up by roughly 60 basis points to about 7.6 percent. This reversal in the direction of long-term interest rates has been fueled by the financial market's belief that economic growth may accelerate from the lethargic pace recorded in the first half of the year, that the outlook for inflation has worsened and that further accomodative moves by the Federal Reserve Board are, therefore, unlikely.

To be sure, the latest set of economic statistics do point to an improving economy. Boosted by a sizeable rise in durable goods orders, total new orders for manufactured goods in July rose by more than 2 percent, the first solid increase in orders this year. At the same time, while the August employment report showed a moderate increase by 200,000 jobs at all non-farm establishments, an increase of 20,000 jobs was recorded in the manufacturing sector, and this was accompanied by an increase in the average length of the work week in manufacturing to the highest level since January of this year. In addition, according to advance estimates, total retail sales in August rose by nearly 0.8 percent above the July sales levels—the largest monthly sales gain since May. And when these figures are combined with the 1.1 percent increase in the July index of leading economic indicators, the second largest of the year, the financial markets perceptions regarding the future course of monetary policy and interest rates appear to be justified.

A closer look, however, reveals that recent statistics exaggerate the strength of the rebound in economic growth. For example, the improvement in manufactured goods orders in July was due principally to a 4 percent rise in orders for durable goods. However, the bulk of this increase occurred in the defense category. Excluding defense, the durable goods orders increase was only 1 percent. Also, the increase of total employment in August came on the heels of a huge downward revision in the July employment figures of 130,000 jobs. Further, although the employment gain in the manufacturing sector last month was heartening in that it did signal a modest improvement in industrial activity, the August improvement pales in comparison to the loss of 100,000 jobs recorded in this important sector during the second quarter.

The rise in total retail sales in August, moreover, was centered in the automotive area, which received a strong one-time shot in the arm from cut-rate financing incentives. Excluding the auto sector, the August sales picture appears far less robust. Finally, the July rise in the index of leading economic indicators was centered primarily in the large rise in the money supply and in net business formations—two components of the index that have typically been unreliable indicators of the future direction of economic activity.

Undoubtedly, the latest batch of statistics suggests that a modest pickup in growth may be taking place. However, we continue to believe that slow to moderate growth lies ahead over the next several quarters.

The economy is still plagued with some fundamental weaknesses. The nagging trade deficit will limit gains in overall growth during the second half. Also, the Commerce Department's latest survey of business' capital spending plans for this year confirms the view that investment in plant and equipment will remain weak as long as capacity utilization remains low and improved prospects for growth abroad seem slim.

While there is no evidence to suggest that consumer spending is about to evaporate, neither are there reasons to believe that substantially increased consumer spending is around the corner. The personal saving rate remains low, consumer debt burdens are far from previous levels and real average weekly earnings declined throughout the summer. Further, the very success of auto financing incentives may adversely affect future non-auto sales, not to mention auto sales. Thus, a weakening in consumer purchasing going into 1987 is a possibility.

Moreover, the one sector of consistently strong activity throughout this recovery, housing, now appears to have settled down to a lower, albeit still healthy plateau. The combination of the age of the housing expansion (i.e., depletion of pent-up demand and pockets of severe regional weakness) has taken some of the steam out of housing construction and sales. Therefore, it seems unlikely that the housing sector can be expected to provide much in the way of added stimulus. Of course, it is common knowledge that overbuilding in the non-residential construction sector has already led to a pronounced drop in activity in that area.

Finally, the probable passage of the proposed tax reform legislation will probably exacerbate the existing weakness in investment spending, as the loss of the investment tax credit and cutbacks in depreciation allowances will act as an additional inhibiting factor. Reductions in the federal deficit next year will also act to limit overall economic growth in the short run.

In sum, it is MBA's belief that the odds continue to favor a continuation of modest economic growth, with little change in the underlying rate of inflation. Because Fed policy will continue to be guided by what the broad array of economic and financial indicators tell them about the strength and direction of economic growth, monetary policy is likely to remain in an accomodative posture and the interest rate environment should remain favorable.

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Senior Economist
September 16, 1986

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rates Total	HOUSING STARTS: Seasonally Adjusted Annual Rates 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rates 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 5+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 5+ Units
1986												
FEB	107	71	36	2,001	1,317	684	109	68	41	1,808	1,155	653
MAR	151	104	47	1,960	1,305	655	152	99	53	1,834	1,150	684
APR	188	126	62	2,019	1,321	698	180	125	55	1,885	1,256	629
MAY	187	134	53	1,853	1,324	529	170	120	50	1,788	1,210	578
JUN	184	131	52	1,852	1,310	542	173	121	52	1,792	1,229	563
JUL*	176	126	50	1,818	1,258	560	154	115	40	1,754	1,159	595
1985 TOTAL	1,741	1,165	576				1,733	1,077	657			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
7 MONTHS												
1986	1,108	772	336				1,070	722	348			
1985	1,014	696	318				1,002	631	371			
1984	1,076	741	335				1,041	685	356			
1983	968	690	278				924	611	313			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS: Actual North East	STARTS: Actual Mid-West	STARTS: Actual South	STARTS: Actual West	STARTS: Seasonally Adjusted Annual Rates North East	STARTS: Seasonally Adjusted Annual Rates Mid-West	STARTS: Seasonally Adjusted Annual Rates South	STARTS: Seasonally Adjusted Annual Rates West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates West
1986																
FEB	12	11	51	33	404	370	745	482	12	12	53	32	287	306	743	472
MAR	21	21	69	40	332	344	763	521	21	20	64	46	276	287	718	553
APR	29	32	75	51	324	365	796	534	29	33	69	49	302	333	727	523
MAY	28	28	78	53	266	251	813	523	29	31	62	49	277	301	687	523
JUN	30	36	70	49	277	306	764	505	28	30	66	50	274	286	728	504
JUL*	30	35	65	46	285	309	711	483	31	30	61	40	300	283	682	452
1985 TOTAL	252	240	782	468					260	237	753	484				
1984 TOTAL	204	243	866	436					201	212	812	457				
7 MONTHS																
1986	164	173	470	302					164	167	436	304				
1985	133	132	471	278					147	132	446	277				
1984	106	140	556	275					110	124	516	291				
1983	92	118	537	221					89	101	511	223				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1986														
FEB	218	59	342	5.9	225.1	94.8	29.8	100.5	1,110	638	472	118	76	42
MAR	277	89	331	4.5	221.1	95.7	30.8	94.6	1,099	627	472	133	92	41
APR	336	84	334	4.5	224.4	97.5	31.8	95.1	1,135	638	497	129	94	35
MAY	330	75	337	5.4	224.4	99.5	32.9	92.0	1,132	648	484	148	94	54
JUN	338	64	345	5.9	226.6	102.3	32.8	91.5	1,153	665	488	149	102	47
JULp	336	54	353	6.7	229	104.7	32.6	91.7	1,163	679	484	148	99	49
1985 TOTAL	3,214	688										1,703	1,167	534
1984 TOTAL	2,868	639										1,652	1,137	515
7 MONTHS														
1986	2,048	480										948	640	308
1985	1,832	416										929	627	302
1984	1,761	403										902	612	290
1983	1,597	380										675	494	181

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$36,525	$6,548	$14,014	$13,288	$2,675	$24,450	$6,104	$11,032	$7,208	$106
NOV	32,864	5,660	12,363	11,886	2,955	21,142	5,200	9,357	6,491	94
DEC	43,586	5,730	15,919	16,189	5,748	22,814	5,158	10,101	7,162	393
1986										
JAN	24,806	5,488	10,512	7,428	1,378	17,341	5,168	7,893	4,126	154
FEB	28,203	5,835	10,478	9,983	1,907	18,980	5,326	8,157	5,418	79
MARp	34,734	8,908	13,190	10,197	2,441	25,772	6,134	10,348	6,949	341
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	241,474	62,658	109,286	68,224	1,306
1984 TOTAL	295,062	50,816	129,482	97,776	16,988	199,228	47,589	96,187	54,626	826
3 MONTHS										
1986	87,744	20,229	34,180	27,609	5,726	62,093	18,628	26,398	16,493	574
1985	66,722	12,621	26,703	23,026	4,372	42,999	11,594	19,227	11,985	193
1984	65,427	13,947	25,697	22,966	2,817	44,430	13,038	18,977	12,240	175
1983	52,965	14,395	17,422	18,322	2,826	38,693	13,520	13,444	11,577	152

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$2,694	$150	$1,456	$700	$388	$9,381	$294	$1,526	$5,380	$2,181
NOV	2,545	183	1,401	716	245	9,137	277	1,605	4,639	2,616
DEC	5,048	274	2,935	1,111	728	15,724	298	2,883	7,916	4,627
1986										
JAN	1,790	86	1,218	433	53	5,675	234	1,401	2,869	1,171
FEB	2,335	323	1,099	541	372	6,888	186	1,222	4,024	1,456
MAR[p]	2,215	300	1,278	446	191	6,747	472	1,584	2,802	1,909
1985 TOTAL	28,034	2,396	15,604	7,262	2,772	99,835	3,011	20,482	52,387	23,955
1984 TOTAL	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
3 MONTHS										
1986	6,340	709	3,595	1,420	616	19,311	892	4,187	9,696	4,536
1985	5,079	584	2,776	1,307	412	18,644	443	4,700	9,734	3,767
1984	4,798	172	2,729	1,609	288	16,199	737	3,991	9,117	2,354
1983	3,040	191	1,589	1,050	210	11,232	684	2,389	5,695	2,464

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1985										
OCT	$29,039	$4,208	$16,134	$5,775	$2,922	$110,307	$12,436	$49,882	$29,100	$18,889
NOV	29,343	6,636	13,967	5,476	3,264	112,662	12,237	49,249	32,014	19,162
DEC	28,511	6,489	14,889	4,693	2,440	109,632	14,091	47,704	31,459	16,378
1986										
JAN	24,619	7,695	12,913	1,588	2,423	96,650	13,930	47,353	18,327	17,040
FEB	31,258	7,954	13,907	6,806	2,591	108,898	16,153	44,355	30,732	17,658
MAR[p]	40,249	14,656	17,787	3,372	4,434	118,979	23,110	50,013	25,345	19,309
1985 TOTAL	323,085	59,986	170,763	60,635	31,701					
1984 TOTAL	258,986	44,893	146,184	47,065	20,844					
3 MONTHS										
1986	96,125	30,315	44,607	11,765	9,438					
1985	60,261	9,966	33,988	8,946	7,361					
1984	61,573	12,569	32,604	10,884	5,516					
1983	51,252	17,481	23,117	7,086	3,568					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1986												
FEB	211	136	25	50	97	6,594	45	2,773	18	1,242	34	2,579
MAR	305	211	33	61	115	7,752	57	3,477	23	1,621	35	2,654
APR	379	270	32	77	105	7,354	47	2,939	18	1,299	40	3,116
MAY	344	220	39	85	141	9,837	73	4,608	24	1,742	44	3,487
JUN	314	166	48	100	138	9,904	56	3,530	32	2,397	50	3,977
JUL[p]	320	166	42	112	151	10,670	64	3,971	27	1,943	60	4,756
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
1984 TOTAL	1,862	477	180	1,205	1,344	86,775	200	10,644	198	12,728	946	63,403
7 MONTHS												
1986	2,078	1,299	243	536	859	59,617	387	23,957	161	11,547	311	24,113
1985	1,231	490	122	619	675	44,004	159	9,147	94	6,293	422	28,537
1984	1,127	253	121	753	843	54,208	138	7,369	133	8,581	572	38,258
1983	1,144	528	170	446	640	37,739	209	10,359	138	8,700	293	18,680

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1986										
FEB	$2,578	$1,159	$60,752	$2,978	$5,526	$6,044	$4,605	$4,268	$5,973	$5,006
MAR	1,917	1,410	62,310	2,260	7,213	7,128	5,318	5,900	14,853	5,059
APR	3,774	1,631	64,171	2,835	8,223	9,869	6,195	5,593	13,336	6,900
MAY	3,538	1,978	67,312	4,491	9,857	10,612	8,947	8,162	4,863	5,872
JUN	3,049	3,000	72,377	6,831	9,720	10,338	10,505	10,353	9,472	8,178
JUL[p]	3,270	3,343	76,197	6,106	n.a.	n.a.	n.a.	n.a.	14,246	10,226
1985 TOTAL	20,225	21,510	—	23,649	30,743	32,601	21,885	20,489	36,101	27,857
1984 TOTAL	21,007	16,721	—	13,546	30,921	32,846	22,952	21,376	70,280	50,496
7 MONTHS										
1986	19,441	13,709	—	29,446	45,419	49,296	39,279	37,576	72,846	46,539
1985	12,001	12,797	—	9,726	22,120	24,353	18,574	17,018	33,225	21,747
1984	12,093	10,411	—	6,949	10,564	11,108	8,271	7,308	22,256	17,589
1983	10,235	10,346	—	9,038	11,601	12,130	11,687	11,043	43,418	30,144

* FHLMC Year-to-date totals are for six months only.

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.	APARTMENTS[5] APT's
1986								
MAR	9.77%	10.06%	10.10%	10.50%	10.62%	9.04%	9.494%	11.09%
APR	9.80	9.99	9.99	10.27	10.37	8.49	9.300	10.84
MAY	10.07	10.32	10.33	10.22	10.15	8.70	9.663	10.81
JUN	9.98	10.38	10.39	10.15	10.20	8.60	10.050	11.62
JUL	10.01	10.28	10.32	10.30	10.26	8.29	9.813	12.02
AUG[p]	n.a.	n.a.	n.a.	10.27	10.27	8.04	9.531	11.45

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1986							
MAR	9.05%	9.23%	9.27%	9.41%	7.78%	6.57%	7.20%
APR	9.01	9.08	9.12	9.26	7.30	6.08	6.60
MAY	9.33	n.a.	n.a.	9.50	7.71	6.19	6.62
JUN	9.57	9.71	9.75	9.65	7.80	6.27	6.71
JUL	9.32	9.48	9.49	9.57	7.30	5.86	6.33
AUG[p]	9.11	9.21	9.24	9.51	7.17	5.55	5.92

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1986				
MAR	36	127	145	149
APR	54	171	178	182
MAY	57	162	n.a.	n.a.
JUN	41	177	191	195
JUL	50	202	218	219
AUG[p]	n.a.	194	204	207

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	890	2,120	80	0	80	1,080	4,680	3,890	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,490	4,090	430	960	4,050	3,910	80	660	7,850	100	750	7,810	280	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH	Total	1-4 Units				5+ Units			Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.	
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	8,840	6,960	1,500	960	4,510	170	0	170	1,710

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4] 1-4 Units	5+ Units	Non-[3] res.	SERVICING VOLUME[1] Total	1-4 Units	5+ Units	Non.[3] res.	NOTES PAYABLE[1] (End of Month Balances) Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	96	88	385,270	321,820	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED Total	1-4 Units	5+ Units	Non-[3] res.	DISBURSEMENTS DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	END OF MONTH INVENTORY Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,680	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	END OF MONTH BALANCES Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.